

State of Alaska FY2003 Governor's Operating Budget

Department of Community & Economic Development Alaska Industrial Development and Export Authority Budget Request Unit Budget Summary

Alaska Industrial Development and Export Authority Budget Request Unit

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BRU Mission

To encourage economic growth and diversification of the economy.

BRU Services Provided

AIDEA acts as an economic development catalyst by providing capital at a reasonable cost for Alaskan businesses, with emphasis on projects that create new jobs and economic activity in the private sector. AIDEA is a primary source of secondary financing in the state for business loans made by financial institutions. The loans are serviced by the banks, thereby limiting staffing requirements at AIDEA. The Authority can also own and operate specific development projects that enhance the economy of the state and support private sector investment. The Authority also acts as a conduit for the issuance of both taxable and tax-exempt bonds for specific business development projects. For small businesses, AIDEA has a Business and Export Assistance program, which provides loan guarantees, with particular emphasis on businesses in rural Alaska.

Bonds sold for AIDEA projects are the general obligation of AIDEA or revenue bonds associated with a specific project owned by AIDEA and do not have the expressed moral obligation of the State of Alaska.

All staffing for Alaska Energy Authority (AEA) functions is provided by AIDEA. As the owner of six hydroelectric plants and the Alaska Intertie transmission line, AEA is responsible for the administrative oversight for these facilities. In addition, AIDEA staff is responsible for providing staffing for the oversight and operation of all rural and alternative energy programs and the circuit rider program of AEA.

BRU Goals and Strategies

1. To stimulate economic development and diversification.
 - Provide business financing assistance throughout Alaska through AIDEA's credit programs by participating in or guaranteeing bank originated loans.
 - Continue to develop, operate and maintain AIDEA owned development projects that support private sector investment and create or maintain jobs for Alaskans.
2. To efficiently oversee the operations and maintenance of approximately \$1 billion in electrical generation and transmission facilities owned by AEA in Alaska.
 - To the extent feasible, contract to user utilities direct operating, maintenance and repair responsibilities for the AEA owned facilities.
3. To effectively provide management support for the Rural and Alternative Energy Programs and the circuit rider program of AEA.

Key BRU Issues for FY2002 – 2003

Provide technical assistance and financing to help businesses diversify the economy in rural Alaska.

Provide financing assistance under the Business and Export Assistance Guarantee Program, assisting small businesses and businesses in rural Alaska to obtain bank financing that otherwise may not have been available to them.

Provide staff to operate AEA's Programs.

Major BRU Accomplishments in 2001

Provided a \$18.5 million dividend to the State General Fund in FY2001 and will provide a \$17.5 million dividend in FY2002.

Purchased approximately \$9.9 million in loan participations originated through financial institutions for businesses and projects in Alaska, helping to expand Alaska's economic base and create jobs in Alaska. At June 30, 2001, had approved loan participation purchase commitments for an additional \$18 million.

Issued \$16.1 million in conduit financing for private sector and non-profit projects.

Oversight of the Healy Clean Coal Project (HCCP) was transferred to Golden Valley Electric Association (GVEA) under a settlement agreement during the prior year. The agreement ended two years of litigation between AIDEA and GVEA. During this post-settlement period, AIDEA and GVEA are exploring financing alternatives to complete a retrofit of the project, to allow the resumption of power generation.

Continued to work with Cominco Alaska and the U.S. Corp of Engineers to study the potential feasibility of a deep water port at the DeLong Mountain Transportation facility (DMTS), the road and port serving the Red Dog Mine. The Red Dog Mine and the DMTS provide approximately 485 permanent, full-time jobs in the NW Arctic Borough.

Helped the Alaska Seafood International manufacturing facility (ASI) owners, and helped negotiate an organizational restructuring to provide operating capital and a new owner-operator. In full production, ASI will provide 450 year-round manufacturing jobs, result in hundreds of indirect jobs, and stimulate the local economies of fishing communities by providing a reliable market for their product.

Integrated personnel and finance functions of the former Division of Energy into AIDEA creating operating efficiencies and cost savings.

Continued to administer outstanding AEA long-term debt in excess of \$300 million; continued to administer special trust funds relating to the facilities.

Key Performance Measures for FY2003

Measure:

The number of permanent jobs created.

Sec 29(b)(1) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY 2001 AIDEA funded loan participations totaling approximately \$9.9 million, creating approximately 185 construction jobs and 163 new jobs, and guaranteed one loan for \$150,000, creating 6 new jobs. In FY2002 AIDEA will purchase between \$50 and \$65 million in loan participations. This is expected to be a record amount and not a figure that is sustainable. In FY 2003, AIDEA will purchase approximately \$30.0 million in loan participations with financial institutions; and guarantee \$2.0 million in small business loans. The number of jobs created is one of the factors in AIDEA's determination to participate in a loan financing; however, AIDEA has not traditionally projected the number of jobs to be created by its financing participations. After a loan is approved AIDEA is able to track that information. On average, over 285 permanent jobs are created annually by AIDEA's loan participations and guarantees.

	Jobs Created/Retained	
	Construction	Permanent
1992	77	34
1993	191	568
1994	334	349
1995	268	215
1996	298	128
1997	504	176

1998	600	500
1999	381	442
2000	506	275
2001	185	169

The number of "permanent jobs created" dropped from FY00 to FY01 primarily due to a drop in loans funded, from \$30.9 million in FY00 to \$9.9 million in FY01. The drop in fundings is in part due to large new construction projects that AIDEA committed to but were not completed within the fiscal year. There is often a lag time between approved loans and funded loans, possibly 60 days to a year. FY02 will reflect the statistics for completed projects that AIDEA committed to in FY01.

Benchmark Comparisons:

No other state similar in population has a public development corporation identical to AIDEA.

Background and Strategies:

AIDEA provides the financing mechanisms necessary to participate in long-term commercial loans, guarantee small business loans, including export transactions, to own projects that promote economic development and to provide conduit financing of projects owned by others that promote economic development.

AIDEA will continue to work with the private sector to develop infrastructure projects that AIDEA can own and lease to the private sector, complimenting private sector investment. AIDEA will also continue to work with the private sector to provide conduit revenue bond financings of projects owned by private sector investments that promote economic development.

Measure:

The loan delinquency rate.

Sec 29(b)(2) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In August 2001, AIDEA's delinquency rate on loan participations dropped to 1.07 percent. This is a lower delinquency rate than Alaskan banks average for their total loan portfolio. This is down from a 1.73 percent delinquency rate for July 2001. Delinquency rates cannot be directly controlled by AIDEA. Delinquency rates are more a result of the economy. However, through prudent business practices, AIDEA can make knowledgeable decisions on participating in loans that will help diversify Alaska's economy and create jobs for Alaskan.

Historical Delinquency (Total Portfolio)

Fiscal Year End	Portfolio Balance \$	Delinquent Loans \$	Delinquent Loans %
6/30/86	372,833,597	36,975,029	9.92%
6/30/87	329,070,910	85,017,004	25.84%
6/30/88	282,280,437	75,172,882	26.63%
6/30/89	269,187,088	71,877,069	26.70%
6/30/90	237,442,336	31,283,646	13.18%
6/30/91	215,871,257	20,608,511	9.55%
6/30/92	208,496,198	25,292,336	12.13%
6/30/93	216,898,077	10,102,823	4.66%
6/30/94	216,343,028	17,422,823	8.05%
6/30/95	238,177,839	15,968,625	6.70%
6/30/96	232,004,260	15,120,064	6.52%
6/30/97	242,941,647	14,249,212	5.87%
6/30/98	233,819,970	3,491,526	1.49%
6/30/99	222,395,176	5,878,085	2.64%
6/30/00	227,615,585	5,698,987	2.50%
6/30/01	208,094,608	3,249,730	1.56%

Benchmark Comparisons:

No other state similar in population has a public development corporation identical to AIDEA.

AIDEA will continue to carefully review all loan participation requests from banks to help insure that each business receiving the loan can produce adequate revenues to repay the loan and that AIDEA's loan portfolio remains strong.

AIDEA will monitor its loan portfolio monthly and work with originating banks and businesses to help insure their loans are current.

AIDEA will insure its loan portfolio is diverse regionally and by industry sector.

Measure:

The amount and percentage of earnings of the authority available to the state as a dividend.
Sec 29(b)(3) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

Since the Dividend Program became law in 1996, AIDEA has provided \$109 million to the General Fund in the form of a dividend, including the FY02 dividend of \$17.5 million. AS 44.88.088 requires that the amount of the dividend for a fiscal year may not be less than 25% nor more than 50% of the net income of the authority for the base fiscal year

Base Fiscal Year June 30	Net Income	Payable In FY	Dividend	Net Income %
1995	37,461,096	1997	15,000,000	40.042%
1996	42,902,054	1998	16,000,000	37.294%
1997	42,880,361	1999	16,000,000	37.313%
1998	52,373,699	2000	26,000,000	49.643%
1999	37,092,829	2001	18,500,000	49.875%
2000	35,597,000	2002	17,500,000	49.161%
Cumulative	248,307,039		109,000,000	43.897%

Benchmark Comparisons:

AIDEA's Dividend Program is unique.

Background and Strategies:

Through prudent business practices and a guiding investment policy, AIDEA will continue to produce net income, thereby allowing AIDEA to provide a dividend to the General Fund to fund other important programs.

AIDEA recommends that this measure be amended to reflect the statutory requirements for the dividend payment.

Alaska Industrial Development and Export Authority

BRU Financial Summary by Component

All dollars in thousands

	FY2001 Actuals				FY2002 Authorized				FY2003 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
Formula												
Expenditures												
None.												
Non-Formula												
Expenditures												
AIDEA	0.0	0.0	4,943.8	4,943.8	0.0	0.0	5,941.9	5,941.9	0.0	0.0	6,362.5	6,362.5
AIDEA Facilities Maintenance	0.0	0.0	175.9	175.9	0.0	0.0	177.0	177.0	0.0	0.0	177.0	177.0
AEA Statewide Operations & Maint	0.0	0.0	791.2	791.2	0.0	0.0	1,051.9	1,051.9	0.0	0.0	0.0	0.0
Totals	0.0	0.0	5,910.9	5,910.9	0.0	0.0	7,170.8	7,170.8	0.0	0.0	6,539.5	6,539.5

Alaska Industrial Development and Export Authority

Proposed Changes in Levels of Service for FY2003

AIDEA requests an increment in personal services to hire three CIP positions. The funding source is I/A receipts from the Alaska Energy Authority (AEA). These positions are needed due to the increase of Denali Commission funded projects managed by AEA rural energy operations.

The AEA operations component was removed from the AIDEA BRU. The budget structures for the Authorities were changed to reflect the organization of both AEA and AIDEA.

Alaska Industrial Development and Export Authority

Summary of BRU Budget Changes by Component

From FY2002 Authorized to FY2003 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	7,170.8	7,170.8
Adjustments which will continue current level of service:				
-AIDEA	0.0	0.0	180.6	180.6
-AEA Statewide Operations & Maint	0.0	0.0	-1,051.9	-1,051.9
Proposed budget increases:				
-AIDEA	0.0	0.0	240.0	240.0
FY2003 Governor	0.0	0.0	6,539.5	6,539.5